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Tobacco and Products

Annual

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Report Highlights:

German cigarette production and consumption continues to grow despite increased pressure from anti-tobacco groups. Consumption of tobacco is estimated at 185,000 tons annually with a U.S. tobacco portion of 36,000 tons. U.S. tobacco exports to Germany in CY 2000 are reported at 47,990 tons, valued at DM 620 million (US\$293 million).

Includes PSD changes: No
Includes Trade Matrix: No
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Executive Summary

In 2000, German tobacco growers harvested 11,169 tons green weight tobacco, which is one pct less than in 1999. Also, about 41 pct of production is Virginia flue cured tobacco. Since the revision of the EU tobacco regime German tobacco growers are gradually increasing their flue cured production because EU support payments are higher for this type of tobacco compared to burley and Geudertheimer varieties. Total production value including EU support payments amounted to DM 85.9 million.

Cigarette production reached a new high of 206.8 billion in CY 2000 of which about 90 billion were produced for exports. Domestic consumption of cigarettes is estimated at 173.5 billion, a slight increase of 200 million compared to 1999. Taxation statistics report cigarette consumption of 140 billion plus 12,757 tons of fine-cut tobacco for roll-your-owns and 1,853 tons of tobacco rolls. Despite increased health concerns tobacco consumption is not yet shrinking. The EU tobacco directive will become effective January 2002 and require stricter warning labels and lower nicotine, condensate and CO levels. The domestic tobacco industry claims that these stricter health requirements will not have short term noticeable negative impact for U.S. tobacco sales to Germany which amounted to 47,990 tons in CY 2000 at a total value of DM 620.1 million.

Note: In recent years the US\$/DM exchange rate has been as follows:

1997: \$1 = DM 1.7348	1998: \$1 = DM 1.7582
1999: \$1 = DM 1.8351	2000: \$1 = DM 2.1176

Production

German raw tobacco production in 2000 is estimated at 10,898 tons green weight, a reduction of 3.2 percent over 1999. The reduction was caused by somewhat inferior growing condition in 2000. However, crop quality turned out to be satisfactory to good. Total production area of tobacco is forecast to remain constant in 2001. However, a move away from Geudertheimer dark air cured and Burley tobacco varieties to Virginia flue cured has been reported. Based on EU regulation 2848/98 the EU harvest of green tobacco is recalculated on the base of harmonized moisture levels of 22 pct for Burley, 26 pct for Geudertheimer dark air cured, and 16 pct for Virginia flue cured tobacco. Production data used in this report is based on the EU harmonized moisture levels.

Preliminary area data for 2001 tobacco production indicate a further production shift towards Virginia tobacco and away from Geudertheimer and Burley varieties.

As result of one percent lower average yields and 1.5 pct lower tobacco prices for the 2000 crop total growers' returns dropped by 2.3 pct to DM 85.9 million, including EU premium payments of about DM 58 million per year.

EU support payments for tobacco production in Germany amount to DM per kilogram green tobacco

Virgin	2.98062
Burley	2.38423
Geudertheimer	2.38423

Tobacco growers in the northern part of Europe receive an additional premium to compensate them for less favorable growing conditions, DM per kilogram

Virgin	0.55039
Burley	0.8822
Geudertheimer	0.55039

High production premiums for Virgin tobacco explain why production shifts away from lesser supported varieties such as Burley and Geudertheimer. About 75 pct of returns from tobacco production come from EU budgets and only roughly 25 pct are generated from product sales. Actual German production of Virgin tobaccos well exceeds its maximum allowed quota of 3000 tons green weight established by the EU. However, the EU tobacco regime provides that in such cases production of other varieties must underfill their quota at the respective level. Additionally, EU regs require that such quota shifts have to be cost neutral to the EU budget. Total premium volume is fixed by the base quota distribution as laid down in EU 2848/98.

Table 1: Tobacco Production in Germany

Table 1: Tobacco Production in Germany						
	Area Planted			Production		
	Hectares			Metric tons		
	1999	2000	2001	1999	2000	2001
Virgin	2,109	2,196	2,270	4,345	4,607	4,760
Burley	964	968	940	2,747	2,702	2,620
Geudertheimer	1,473	1,413	1,365	4,163	3,860	3,725
Total	4,546	4,577	4,575	11,254	11,169	11,105
	Average Price			Total Returns		
	DM per kilogram			1,000 DM		
	1999	2000	2001	1999	2000	2001
Virgin	8,197	8,155		35,614	36,725	
Burley	8,475	8,340		23,277	23,278	
Geudertheimer	6,962	6,950		28,984	25,889	
Total	7,808	7,881		87,875	85,892	
Source: German Tobacco Growers Association						

Consumption

Germany's annual tobacco consumption is roughly estimated at 180 to 185,000 tons of which the cigarette industry takes about 155,000 assumed tobacco use per cigarette is calculated at 7.5 grams. The cigar and cigarillo industry consumes about 2.0 to 2.5 thousand tons. Fine-cut, tobacco rolls and pipe tobacco manufacturers process about 29,500 tons annually. All these numbers are more guesses than estimates since the industry does not supply any raw tobacco input information.

Cigarettes

German production of cigarettes has grown another one percent to 206.8 billion in CY 2000 after the steep increase of 12.5 pct in CY 1999. Again this year, the increase was mainly induced by an increased export demand by EU countries. However, the cigarette industry estimates that the domestic cigarette consumption grew by another 200 million to a total of 173.5 billion (source Deutsche Tabak-Zeitung of April 2001). Taxation statistics actually report a reduction of 3.9 pct but might be misleading since 1999 taxation numbers included storage production for the millennium change after December 1999. Industry data indicate that tobacco consumption continues to grow despite increased public efforts to prevent smoking.

The estimated total consumption of cigarettes of 173.5 billion breaks down to 140.8 billion

fabricated cigarettes plus another 13 billion imported duty-free by commuters and international travelers (plus 200 million), plus a calculated 15.6 billion cigarettes (plus two pct) rolled or stuffed from fine-cut tobacco. About 1.2 billion cigarettes are taxed as cigarillos since they are produced like cigarillos but contain cigarette tobaccos. Finally 2.9 billion cigarettes are sold and taxed as fine-cut tobacco rolls which have to be filled into an empty cigarette hull to be ready for smoking. The last two product types are clear tax avoidance products. Due to the narrowly describing EU definition of what cigarettes are all other products not covered by the cigarette definition can be taxed differently which means they are taxed at a lower tax rate than that for cigarettes.

Problematic for the German cigarette market is the strong growth of private label, trade-chain label, cigarettes. These cigarettes sell at prices about 25 percent below the most favorite market leader brands. The market share of the low-priced cigarettes grew by 32 percent to 14 billion in 2000, which was 9.9 pct of total. During the first quarter of 2001 their market share boomed further and reached a share of already 12.9 pct. Some of the reasons for this development are that these private labels are sold through food retail outlets and purchase decisions are often made by the housewives who cares for the household budget. Additionally, consumers have become extremely price sensitive so that prices above the 5 DM level seem to be hard to accept. This situation is similar to the German food retail market. It seems that consumers in Germany are predominantly looking at product prices for purchase decisions. It is questionable whether the quality of private label cigarettes is noticeably different from traditional higher priced brands. It is unlikely that the consumer would tolerate a lower quality just for the sake of a lower price. At the same time big packs of cigarettes holding 25 or 26 cigarettes are also increasing their market share, reaching 16.2 pct in 2000 which is nearly twice as high as in 1996. Again, a major portion of that growth was achieved with private label big packs.

Continued growth is also reported for light cigarettes which increased their market shares from 30.9 percent in 1999 to 32 percent in 2000. Five years ago the light segment accounted for 26.8 percent. Non-filter cigarettes make up for only 2.8 percent, losing about 0.2 percentage points every year. Looking at consumption numbers, it is interesting to notice that the strong growth of the light segment parallels a noticeable growth of per capita consumption, reaching 1,699 cigarettes in 2000 versus 1,654 in 1995. An alarming report in 1999 said that at the same time starting age of young smokers has shrunk to already 12.5 years. However, a most recent report of the federal government says that in 2000 the number of smokers had dropped to 16.6 million compared to 17.8 million in 1997. About 39 percent of the males are smoking while only 31 percent of the female population smoke.

Realizing this alarming high number of smokers, the cigarette industry launched a number of anti-smoking campaigns specifically directed at young kids warning of the hazards of smoking. The driving force of such campaigns is to avoid even stricter advertizing and marketing limitations as they have been recently decided by the European legal authorities. The intent is also to position the cigarette industry as the good boys who take care of their customers health. A possible result of these actions is that the percentage of smoking kids between 12 and 15 years of age dropped from 41 percent in 1997 to 39 percent in 2000.

About 40 percent of cigarettes are sold through food retail stores. This portion is continuously

growing and reflecting the increasing demand for low-price cigarettes. Sales through vending machines shrunk to about 27 percent in 2000. This percentage is foreseen to drop further since the national government and also the European parliament intend to implement regulations to prohibit tobacco sales to young people below 16 years of age. Such a regulation would require a customer identification systems for easy accessible outdoor vending machines. In the discussion are money cards which contain age info.

Cigars

Popularity of cigars continues to grow by about two percent to 1.25 million cigars and cigarillos in Germany in 2000. Growth is reported particularly for flavored cigarillos.. Also traditional shortfillers are increasingly demanded. Consumption of longfillers including Havannas is estimated at 18 to 23 million. Especially single cigars in aluminum tubes are a product with great success. Since the market for cigars is extremely diversified into a multitude of small brands the requirements of the new EU tobacco directive may be a deadly danger for many small brands. In particular the required analytical data of product ingredients will pose a big financial problem to suppliers - domestic and imported - of small brands. Art. 6 of the directive requires a detailed listing of all ingredients as well as toxicological data and research reports about health risks of these ingredients. U.S. cigar exports to Germany amounted to US\$128,000 in 2000.

Taxation

All tobacco products are subject to a 16 percent value added tax (VAT) in addition to product specific tobacco taxes.

Cigarettes

DM 9.69 per 100 cigarettes

Plus a proportional tax portion calculated as 21.6 percent of the retail sales price

Minimum tobacco tax on cigarettes amounts to DM 13.70 per 100 cigarettes

This does not include VAT.

Cigars and cigarillos

DM 2.60 per 100 cigars and cigarillos

Plus a proportional tax of one percent of the retail price

(excl. VAT)

Smoking tobacco

Fine-cut tobacco

DM 30.21 per kilogram

Plus 18.12 percent of retail price

Minimum DM 45.00 per kilogram (excl. VAT)

Pipe tobacco

DM 21.00 per kilogram

Plus 13,5 percent of retail price

(excl. VAT)

Fine-cut tobacco rolls

until December 31, 2001

DM 96.65 per kilogram
 Plus a proportional tax of 26.65 percent
 Minimum DM 114 per kilogram (excl. VAT)
 After December 31, 2001 rolls will be taxed like cigarettes.

Tax revenues in 2000 amounted to DM 22.27 billion which was a reduction of 2.3 percent. Tobacco taxes are the fourth single most important revenue sources for the federal budget, following income tax, VAT and gasoline tax.

Table 2: Tobacco Product Consumption and Taxes		1997	1998	1999	2000
Volume of Taxed/Consumed Tobacco Products					
Cigars/Rillos	mill pcs	1,592	1,992	2,289	2,557
Cigarettes	mill pcs	137,677	138,388	145,265	139,625
Fine-cut	tons	11,656	12,150	12,682	12,758
Pipe Tobacco	tons	1,039	1,003	983	909
Tobacco Rolls	tons	2,477	2,602	1,314	1,853
Total Returns by Product					
Cigars/Rillos	mill DM	670	795	917	992
Cigarettes	mill DM	34,549	35,845	38,294	37,505
Fine-cut	mill DM	1,334	1,404	1,453	1,449
Pipe Tobacco	mill DM	194	190	191	180
Tobacco Rolls	mill DM	630	675	352	486
Total	mill DM	37,377	38,908	41,208	40,613
Tax Returns					
Cigars/Rillos	mill DM	57	63	69	76
Cigarettes	mill DM	19,995	20,525	21,817	21,193
Fine-cut	mill DM	594	621	647	648
Pipe Tobacco	mill DM	48	47	46	43
Tobacco Rolls	mill DM	408	431	221	309
Total	mill DM	21,102	21,687	22,799	22,270
Average Retail Prices					
Cigars/Rillos	DM/piece	0.4210	0.3990	0.4010	0.3879
Cigarettes	DM/piece	0.2509	0.2590	0.2640	0.2686
Fine-cut	DM/kg	114.44	115.50	114.60	113.59
Pipe Tobacco	DM/kg	186.52	189.80	194.30	198.46
Tobacco Rolls	DM/kg	254.43	259.20	268.20	262.54

Average Tax					
Cigars/Rillos	DM/piece	0.0357	0.0310	0.0300	0.0399
Cigarettes	DM/piece	0.1452	0.1480	0.1502	0.1518
Fine-cut	DM/kg	50.95	51.10	51.00	51.79
Pipe Tobacco	DM/kg	46.51	46.80	47.20	47.79
Tobacco Rolls	DM/kg	164.49	165.70	168.10	166.62
Source: FedMinFinance					

Trade

Arrivals of leaf tobacco in Germany amounted to 263,077 tons valued at DM 1.9 billion of which 47,990 tons equivalent to 18 percent of total imports were of U.S. origin. Due to higher prices for U.S. tobaccos the value of U.S. origin tobacco amounted to DM 620 million which is 33 percent of total import value. Supplier number two is Brazil shipping 44,850 tons in 2000 at a value of DM 314 million.

Following trade tables provide data of tobacco arrivals and departure before customs declaration. Normally, raw tobaccos are stored under customs seal until processing often for up to one year. This procedure is favorable for the tobacco industry because of the high level of EU import taxes. However, it has been indicated by the German Statistics Office that the collection of such arrival trade data will soon be discontinued. Then only customs declared trade data will be available which may strongly conflict with U.S. export data since raw tobaccos might wait for up to one year in German/European storage before they will be customs declared.

Detailed trade German data are available through the World Trade Atlas and may be obtained from FAS Washington.

Table 3: German Leaf Tobacco Trade by Type

1999 German Leaf Tobacco Trade by Type				
	Total		U.S. Share	
	MT	DM 1,000	MT	DM 1,000
Flue Cured, Virgin	92,911	826,674	27,326	366,758
Burley	48,262	437,831	12,901	201,248
Maryland	1,001	16,314	970	15,898
Kentucky Fired Cured	778	5,320	26	318
Oth. Fire Cured	2,660	49,651	5	56
Light Air Cured	17,295	132,823	60	358
Oriental	32,096	302,540	0	0
Dark Air Cured	2,528	17,914	0	1
Oth. Flue Cured	19,557	121,619	363	1,916
Other Tobacco	1,590	46,833	8	174
Stems and Scraps	41,832	50,540	7,051	8,758
HTL	16,936	73,374	7,758	34,028
Total	277,446	2,081,433	56,468	629,513
Export Summary				
Flue Cured, Virgin	27,381	232,353	0	0
Burley	7,755	59,329	0	0
Maryland	12	216	0	0
Kentucky Fired Cured	970	5,002	0	0
Oth. Fire Cured	2,024	36,185	1	12
Light Air Cured	6,844	61,566	0	0
Oriental	5,508	45,566	248	968
Dark Air Cured	1,859	7,186	914	3,654
Oth. Flue Cured	4,756	32,753	0	0
Other Tobacco	13,134	131,100	0	0
Stems and Scraps	19,028	30,881	64	157
HTL	4,469	20,888	72	1,507
Total	93,740	663,025	1,299	6,298

2000 German Leaf Tobacco Trade by Type				
Import Summary	Total		U.S. Share	
	MT	DM 1,000	MT	DM 1,000
Flue Cured, Virgin	78,148	754,050	21,110	334,082
Burley	41,663	425,203	12,420	222,135
Maryland	668	12,187	570	10,728
Kentucky Fired Cured	56	701	25	508
Oth. Fire Cured	1,596	25,854	2	28
Oth. Light Air Cured	21,080	15,356	198	2,226
Oriental	28,792	266,686	0	0
Dark Air Cured	1,317	10,308	0	4
Oth. Flue Cured	32,524	194,875	1	18
Other Tobacco	2,901	70,803	1,027	14,132
Stems and Scraps	37,352	48,499	6,514	8,654
HTL	16,980	73,661	6,123	27,579
Total	263,077	1,898,183	47,990	620,094
Export Summary				
Flue Cured, Virgin	23,864	192,735	0	0
Burley	9,135	67,316	0	0
Maryland	12	179	0	0
Kentucky Fired Cured	55	286	0	0
Oth. Fire Cured	763	23,046	4	75
Oth. Light Air Cured	10,091	84,066	0	0
Oriental	8,296	68,948	0	0
Dark Air Cured	1,853	7,596	1,064	4,243
Oth. Flue Cured	6,826	38,271	0	0
Other Tobacco	9,179	102,155	0	0
Stems and Scraps	14,441	24,468	337	410
HTL	7,195	33,563	27	590
Total	91,710	642,629	1,432	5,318

Policy

The new EU tobacco directive requires a number of major changes especially for the cigarette industry. Warning labels will be required at a size which can not be overlooked. Also the wording will be a lot more direct than the traditional warnings. The lowering of tar and condensate levels is not foreseen to pose any particular problems to the industry. However, the new requirement for CO labeling might demand adjustments in the production process of cigarettes and possibly also in the blend of tobaccos used in cigarette production.

Similar to cigars, a listing of all ingredients and a toxicity and health risk report have to be prepared once a year. This particular requirement might cause significant problems to exports of U.S. made cigarettes to the European market.

Marketing

German industry contacts welcomed the changes in the U.S. tobacco marketing system. During the past years, complaints were frequently voiced that the auction floor system was of urgent need for modernization. Tobacco buyers are confident that the new system of direct production contracts will have a positive effect on product quality and balance the additional administrative cost which is involved with the production contract system. It is likely that international customers will employ their direct influence also on production technology to optimize product quality. Modern tobacco curing systems are viewed with some skepticism because they tend to increase sucrose levels beyond desired levels.

Statistical Section

Table 4: PS+D Total Tobacco, Unmfg.

PSD Table						
Country	Germany					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	4546	4546	4610	4577	0	4575
Beginning Stocks	15849	20000	31569	28639	33708	25241
Farm Sales Weight Prod	11254	11254	11310	11169	0	11105
Dry Weight Production	9335	9587	9639	9539	0	9496
U.S. Leaf Imports	48710	56468	46000	47990	0	46000
Other Foreign Imports	211800	220978	200000	215087	0	217000
TOTAL Imports	260510	277446	246000	263077	0	263000
TOTAL SUPPLY	285694	307033	287208	301255	33708	297737
Exports	89271	93740	90000	91710	0	92000
Dom. Leaf Consumption	6500	6300	6500	6750	0	6800
U.S. Leaf Dom. Consum.	38354	38354	35000	36554	0	36000
Other Foreign Consump.	120000	140000	122000	141000	0	141500
TOTAL Dom. Consumption	164854	184654	163500	184304	0	184300
TOTAL Disappearance	254125	278394	253500	276014	0	276300
Ending Stocks	31569	28639	33708	25241	0	21437
TOTAL DISTRIBUTION	285694	307033	287208	301255	0	297737

Table 5: PS+S Flue-Cured Tobacco

PSD Table						
Country	Germany					
Commodity	Tobacco, Unmfg., Flue Cured				(HA)(MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	1750	2109	0	2196	0	2270
Beginning Stocks	671	20000	171	20971	171	12195
Farm Sales Weight Prod	3480	4345	0	4607	0	4760
Dry Weight Production	3100	3867	0	4100	0	4236
U.S. Leaf Imports	24000	27326	0	21110	0	22000
Other Foreign Imports	66000	65585	0	57038	0	60000
TOTAL Imports	90000	92911	0	78148	0	82000
TOTAL SUPPLY	93771	116778	171	103219	171	98431
Exports	25000	27381	0	23864	0	25000
Dom. Leaf Consumption	1600	2800	0	3400	0	3600
U.S. Leaf Dom. Consum.	17000	20997	0	19211	0	19500
Other Foreign Consump.	50000	44629	0	44549	0	43000
TOTAL Dom. Consumption	68600	68426	0	67160	0	66100
TOTAL Disappearance	93600	95807	0	91024	0	91100
Ending Stocks	171	20971	171	12195	0	7331
TOTAL DISTRIBUTION	93771	116778	171	103219	0	98431

Table 6: PS+D Burley Tobacco

PSD Table						
Country	Germany					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	964	964	960	968	0	940
Beginning Stocks	9803	9803	7437	7437	5603	6895
Farm Sales Weight Prod	2746	2746	2720	2702	0	2620
Dry Weight Production	2390	2390	2366	2351	0	2279
U.S. Leaf Imports	12898	12898	12500	12420	0	12500
Other Foreign Imports	35364	35364	35000	29243	0	30000
TOTAL Imports	48262	48262	47500	41663	0	42500
TOTAL SUPPLY	60455	60455	57303	51451	5603	51674
Exports	7755	7755	8000	9135	0	9000
Dom. Leaf Consumption	1700	1700	1700	1650	0	1600
U.S. Leaf Dom. Consum.	11446	11446	10000	11176	0	11500
Other Foreign Consump.	32117	32117	32000	22595	0	23000
TOTAL Dom. Consumption	45263	45263	43700	35421	0	36100
TOTAL Disappearance	53018	53018	51700	44556	0	45100
Ending Stocks	7437	7437	5603	6895	0	6574
TOTAL DISTRIBUTION	60455	60455	57303	51451	0	51674

Table 7: PS+D Cigarettes

PSD Table						
Country	Germany					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Filter Production	200531	200331	199200	203160	0	204000
Non-Filter Production	4300	4300	3800	3610	0	3200
TOTAL Production	204831	204631	203000	206770	0	207200
Imports	26221	26221	27000	33604	0	33000
TOTAL SUPPLY	231052	230852	230000	240374	0	240200
Exports	85187	85187	85000	90637	0	91000
Domestic Consumption	145865	145665	145000	149737	0	149200
TOTAL DISTRIBUTION	231052	230852	230000	240374	0	240200